

RATING REPORT

Magnus Investment Advisors Limited

REPORT DATE:

March 7, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Medium to Long Term	Medium to Long Term
Management Quality	AM2-(IA)	AM2-(IA)
Rating Outlook	Stable	Stable
Outlook Date	Mar 2, '16	Feb 26, '15

COMPANY INFORMATION

Incorporated in 2007	External auditors: KPMG Taseer Hadi & Co.
Non-Banking Finance Company	Chairman of the Board: Mr. Nadeem Ahmed Jeddy, CFA
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Hassan Khan
Nadeem Ahmed Jeddy - 72.60%	
Winato Kartono - 9.50%	
Hardi Wijaya Liong - 9.50%	
Amani Sue - 8.00%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/Images/NBFC.pdf>

Magnus Investment Advisors Limited

OVERVIEW OF THE INSTITUTION

Magnus was incorporated in June 2007 as an unlisted public limited company. The company is engaged in providing investment advisory services and specializes in providing investment management services to employee retirement funds. Financial statements of Magnus for FY15 were audited by M/s KPMG Taseer Hadi & Co.

RATING RATIONALE

In recent years, dedicated investment advisory services have gained popularity with growing interest of large, well-established Asset Management Companies (AMCs) in the investment advisory space. Retaining and expanding client base and maintaining profitable operations have not been growth barriers for Magnus to date. However, the growing presence of AMCs in this industry may pose challenges for specialized investment advisory companies.

Magnus Investment Advisors is a specialized investment advisory company operating since 2007. Since inception, the company has managed funds for its Institutional Client Group (ICG) including retirement, gratuity and provident funds of various local and multinational companies. The investment strategy of these funds is tailor-made to the specific requirement of the client. However during 2015, the company further diversified its client base by launching three new target markets namely Corporate Client Group (CCG), Private Client Group (PCG) and Wealth Management (WM) Group. Each business segment has a defined target client specification and is primarily focused on reducing revenue concentration from their highly customized ICG product segment to more pre-defined, generic portfolios offerings to clients. Moreover in order to help build its WM portfolio, the company has recently launched a subsidiary, Arkad Consultants (Private) Limited (Arkad). As per mandate, Arkad will operate as a distributor of mutual funds, Voluntary Pension System (VPS) schemes and insurance products.

By end-June 2015, Magnus had a client base of 20 clients including those who have been associated with the company since inception. Portfolios managed by the company pertain to domestic and overseas clients. Total AUMs (at market value) of the company amounted to Rs. 28.0b (FY15: Rs. 25.4b, FY14: 19.9b) at end-December 2015; growth in AUMs was on account of new additions in clients along with returns earned on existing portfolios. Improving franchise of the company is evident from the fact that some of the existing clients have assigned additional funds to Magnus for management. Moreover, clients have also gradually moved from non-discretionary to discretionary portfolios allowing Magnus to manage funds based on their best findings.

Policy framework of the firm also exhibits strong disposition towards self regulation, transparency and disclosure to clients. In line with regulatory requirement, manuals for all key functions including risk management, finance, HR, portfolio management, security analysis and business development are updated every three years. Moreover, quality of reporting to clients is comprehensive and there is standardization of services across clients.

Organizational structure of the company is well defined with sound analytical input; from security analysis to development of investment strategy and achievement of investment objectives. There were certain changes at the senior management positions including resignation of Head of Private Client Group / Wealth Management (PCG/WM) division. This position was filled by an internal resource, Mr. Naresh Kumar who additionally serves as CEO of Arkad. Moreover, position of Head of Portfolio Management division was also filled internally. Historically, the company has experienced turnover at the lower management level. In order to overcome this challenge, Magnus formulated comprehensive documentation of procedures, systems and job descriptions to ensure continuity in operations in case of turnover. Stability in management team is considered essential for the company to achieve its long term objectives.

On a timeline basis, portfolio returns of the company have outperformed their benchmarks both in terms of asset classes as well as accumulated return for entire portfolio. Accumulated returns posted on equity portfolio have outperformed their benchmark of KSE-100 index, during 2015. Returns on fixed income instruments portion of the portfolios were also higher compared to the average KIBOR rate given substantial price gains on longer duration bonds in the backdrop of a declining interest rate scenario. Consistency in performance results and level of customer services are considered important factors for client retention and sustained future growth of AUMs.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Magnus Investment Advisors Limited

Appendix I

FINANCIAL SUMMARY		<i>(amounts in millions)</i>	
<u>BALANCE SHEET</u>	JUN 30, 2015	JUN 30, 2014	
Property and Equipment	57.4	51.3	
Investments	155.9	149.0	
Investment in subsidiaries	2.3	2.3	
Cash and bank balances	33.8	18.7	
Total Assets	282.7	252.6	
Issued, Subscribed & Paid up Capital	119.0	119.0	
Share Premium	51.5	51.5	
Surplus on Revaluation of Available for Sale Investments	31.5	29.3	
Accumulated Profit	65.2	43.6	
Total Equity	267.1	243.4	
<u>INCOME STATEMENT</u>	JUN 30, 2015	JUN 30, 2014	
Management Fee	75.5	61.7	
Capital gain on sale of investment	3.1	2.5	
Unrealized gain/loss in value of investment	8.0	(1.6)	
Total revenue	101.4	74.6	
Administrative and operating expenses	59.1	53.9	
Profit before taxation	42.4	20.7	
Taxation	12.3	(0.5)	
Profit After Tax	30.0	21.3	

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Management Quality (IA) Rating Scale

AM1 (IA)

Highest Management Quality

AM2 (IA)

High Management Quality

AM3 (IA)

Good Management Quality

AM4 (IA)

Adequate Management Quality

AM5 (IA)

Weak Management Quality

The rating grades from AM2 (IA) to AM5 (IA) may be modified by a (+) or (-) sign to indicate the relative positioning within a rating category.

Rating Watch:

JCR-VIS places entities on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks

The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor to a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

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REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	Magnus Investment Advisors Limited			
Sector	Non-Banking Finance Company			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	03/02/2016	AM2-(IA)	Stable	Reaffirmed
	02/26/2015	AM2-(IA)	Stable	Upgrade
	02/26/2015	AM3+(IA)	Stable	Harmonised
	07/16/2013	AM3+	Stable	Reaffirmed
	05/11/2012	AM3+	Stable	Reaffirmed
Instrument Structure	N/A			
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
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